

Thornburg Income & U.S. Government Bonds

Portfolio Manager Commentary
30 June 2022



Market Review

Weighed down by a litany of concerns, the fixed income markets experienced one of the worst quarters on record. The list of investor worries going into the second half of the year is lengthy: rampant inflation, hawkish global central bank policy, rate hikes, quantitative tightening, the war in Ukraine, energy costs, slowing economic growth and a potentially looming recession. Yields across nearly every fixed income asset class were up substantially during the quarter as the U.S. Federal Reserve set the pace for other global central banks by hiking the Fed Funds rate in increasing increments in March (+25bps), May (+50bps) and June (+75bps). Spurred by monthly CPI data in May that was worse than expected, June marked the first 75bps hike since 1994 and served as a confirmation that inflation was become entrenched in the U.S. The same week in June the Swiss National Bank hiked rates (+50bps) for the first time in 15 years, as did Brazil's central bank (+50bps), and the Bank of England (+50bps). The data dependent decision-making process at global central banks, akin to driving by looking in the rearview mirror, has left many behind the curve on interest rate policy which has contributed to inflation rising to 40-year highs. As central banks now play catch-up, investors are faced with the likelihood of a not-so-soft landing, and the realization has set in that the recession many feared at the end of 2019 was not avoided by massive fiscal and monetary stimulus, but instead was only delayed.

Global rate hikes left fixed income investors with no place to hide as bonds sold off along with what felt like every other financial asset during the quarter. Longer duration bonds bore the brunt of the selloff with some debt markets down double digits on the quarter and many down over 20% on a year-to-date basis. The yield on the 10-year U.S. Treasury, which began the quarter at 2.35%, rose to 3.48%, which marked the highest level since February 2011, but managed to pare its losses in the final weeks of June to finish at 3.01%. Global sovereign debt broadly experienced a similar fate as yields on 10-year debt government rose by as much as 120bps in Brazil or as modestly as 7bps in Japan. Rates hikes also took their toll on investment-grade corporates and securitized debt, which were both down substantially for the quarter and for the year. Credit sectors such as U.S. and global high yield corporates also had to contend with recession concerns, igniting a flight to quality that led credit spreads to widen by a couple of hundred basis points during the quarter thus, further compounding losses created by rate movements. The waning weeks of the quarter were surprisingly unlike the previous two months as yields fell following the Fed's June rate hike. Restored credibility in the Fed's willingness and ability to fight inflation, coupled with a looming economic slowdown, led investors to reignite a bid for Treasuries given the ability to purchase bonds at multi-year high yield levels.

We are taking advantage of volatility to pursue attractive opportunities within fixed income.

Portfolio Managers

Jason Brady, CFA
President and CEO
Portfolio Manager

Lon Erickson, CFA
Portfolio Manager

Jeff Klingelhofer, CFA
Co-Head of Investments
Portfolio Manager

Supported by the entire Thornburg investment team

THORNBURG INCOME AND U.S. GOVERNMENT BONDS

Portfolio Manager Commentary
30 June 2022



Performance Summary

- The Thornburg Limited Term Income Strategy composite returned -2.52% (net of fees) during the second quarter, modestly underperforming the Bloomberg Intermediate Government/Credit Index, which returned -2.37% (net of fees).
- The strategy's structural short duration position versus the index was a contributor to relative performance. The 5-year U.S. Treasury yield moved higher by 58 bps to end the quarter at 3.04%, while the 10-year Treasury yield ended the period 68 bps higher at 3.01%. Curve positioning was an additional contributor given the strategy's relative shorter maturity profile. As referenced above, rates on the front end of the curve rose less than its longer maturity counterparts.
- Despite the strategy's defensive posture, the allocation to spread sectors ultimately detracted from relative performance, though no one sector was a significant detractor. Exposure to asset-backed securities lagged in sympathy with other risk assets. A steady supply of deals coming to market ensured that technicals remained weak in the asset-backed space during the second quarter. Collateralized mortgage obligation exposure proved to be a detractor as investor demand for mortgage credit continued to wane during the second quarter. Finally, investment grade corporates detracted, as the Bloomberg Investment Grade Corporate Index meaningfully widening from 116 bps to 155 bps.

Limited Term Income Strategy Average Annual Returns (% , as of 30 Jun 2022)

In US\$ terms. Returns may increase or decrease as a result of currency fluctuations.

	QTR	YTD	1-YR	3-YR	5-YR	10-YR
Limited Term Income Composite* (Net)	-2.59	-6.22	-6.43	0.72	1.72	2.33
Limited Term Income Composite (Gross)	-2.52	-6.07	-6.14	1.04	2.05	2.68
BBG Int US Govt/Credit TR Value	-2.37	-6.77	-7.28	-0.16	1.13	1.45

Limited Term US Government Strategy Average Annual Returns (% , as of 30 Jun 2022)

In US\$ terms. Returns may increase or decrease as a result of currency fluctuations.

	QTR	YTD	1-YR	3-YR	5-YR	10-YR
Limited Term U.S. Government Composite (Net)	-1.95	-5.39	-5.68	-0.53	0.62	0.90
Limited Term U.S. Government Composite (Gross)	-1.86	-5.21	-5.32	-0.16	1.00	1.28
BBG Barclays US Govt Int TR Value	-1.65	-5.77	-6.32	-0.30	0.87	0.97

*Performance data for the Limited Term Income Strategy is from the Limited Term Income Composite, inception date of 1 February 1993. The Limited Term Income Composite includes all non-wrap discretionary accounts invested in the Limited Term Income Strategy. Returns reflect the reinvestment of income and capital gains. Performance data for the Limited Term U.S. Government Strategy is from the Limited Term U.S. Government Composite, inception date of 1 March 1988. The Limited Term U.S. Government Composite includes all discretionary non-wrap accounts invested in the Limited Term U.S. Government Strategy. Returns reflect the reinvestment of income and capital gains.

Each composite represents all assets under management in fully discretionary, transaction fee based accounts. Returns are calculated using a time-weighted and asset-weighted calculation including reinvestment of dividends and income. Periods less than one year are not annualized. Individual account performance will vary. The performance data quoted represents past performance; it does not guarantee future results. Net of fee returns are net of transaction costs and investment advisory fees. For periods prior to 2011, net returns for some accounts in the composite also reflect the deduction of administrative expenses. Thornburg Investment Management Inc.'s fee schedule is detailed in Part 2A of its ADV brochure. Gross of fee returns are net of transaction costs. Performance results of the firm's clients will be reduced by the firm's management fees. For example, an account with a compounded annual total return of 10% would have increased by 159% over ten years. Assuming an annual management fee of 0.75%, this increase would be 142%.

Annual Return Performance Summary

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Limited Term Income Composite (Net)	5.56	7.95	0.39	3.89	0.98	3.63	2.89	1.38	5.91	7.74	-0.64
Limited Term Income Composite (Gross)	6.05	8.41	0.77	4.28	1.34	3.99	3.22	1.72	6.26	8.09	-0.33
BBG Barclays Int US Govt/Credit TR Value	5.80	3.89	-0.86	3.13	1.07	2.08	2.14	0.88	6.80	6.43	-1.44
Limited Term U.S. Government Composite (Net)	4.35	2.53	-1.37	2.86	0.81	1.52	1.16	1.33	4.16	4.31	-1.35
Limited Term Term U.S. Government Composite (Gross)	4.74	2.92	-1.00	3.25	1.20	1.90	1.53	1.71	4.55	4.69	-0.99
BBG Barclays US Govt Int TR Value	6.08	1.73	-1.25	2.52	1.18	1.05	1.14	1.43	5.20	5.73	-1.69

Past performance does not guarantee future results.

Positioning and Outlook

With central banks in full inflation fighting mode, the chances of recession have risen rapidly, with the question becoming not if a recession will occur, but potentially how deep it might be. Central banks have a mixed record at best with soft landings, and the Fed is reluctant to admit that some sort of demand contraction is needed to soften inflation. Given this backdrop, portfolio risk continues to be defensively positioned. We incrementally added duration as rates have risen, believing Treasury yields have reached a level somewhat close to fair value, though tail risks remain elevated on both sides. A Fed unable to control inflation and inflation expectations is a recipe for rapidly rising rates. On the flip side, recession fears may well reignite an interest rate rally as investors once again look to Treasuries as a safe haven in times of stress.

Securitized fixed income remains the best relative value proposition in the portfolio. We are constructive on spread levels and favor a bias toward prime consumer issuance. That said, we believe the portfolio has an appropriate level of securitized risk, mindful that spreads could widen further in a risk-off environment. Though recession and inflation fears will remain an overhang, the consumer is broadly coming into the second half of the year in a position of strength. Delinquencies across prime consumer sectors are modestly higher than in 2020-2021, but remain low overall, and in many cases, still below pre-COVID levels. We continue to be cautious on the subprime consumer, given the challenges this cohort could experience should the economy drastically weaken. Within the residential mortgage space, the headwind of rising mortgage rates is being offset by still favorable supply/demand dynamics. While we expect housing market strength to wane, bondholders have plenty of built in protection from lower LTVs and existing loans underwritten with strong lending standards.

Within U.S. corporates, valuations have improved to a point that, as of quarter-end, spreads are clearly above long-term historical averages. While this makes the opportunity set within corporates more interesting, we remain fairly cautious given the weakening macro backdrop and input cost inflation. We have a bias toward names with less cyclicality and more attractive valuations versus recent history. We are cautious on bank loans both on relative value versus high yield as well as a broadly asymmetric risk/return tradeoff. In emerging markets, weakness persists in sympathy with broader risky assets and the weak growth/high inflation narrative. We believe this environment has created security-level mispricing for which we will look to exploit. The timing, however, will be based on evolving domestic and global trends. We continue to look for opportunities in areas with high real rates, advanced policy cycles, and improving domestic demand.

Thanks for your continued support and investing alongside us in Thornburg's fixed income funds.

THORNBURG INCOME AND U.S. GOVERNMENT BONDS

Portfolio Manager Commentary

30 June 2022



Important Information

The performance data quoted represents past performance; it does not guarantee future results.

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 30 June 2022.

The views expressed are subject to change and do not necessarily reflect the views of Thornburg Investment Management, Inc. This information should not be relied upon as a recommendation or investment advice and is not intended to predict the performance of any investment or market.

Holdings may change daily and may vary among accounts.

U.S. Treasury securities, such as bills, notes and bonds, are negotiable debt obligations of the U.S. government. These debt obligations are backed by the "full faith and credit" of the government and issued at various schedules and maturities. Income from Treasury securities is exempt from state and local, but not federal, taxes.

Portfolios investing in bonds have the same interest rate, inflation, and credit risks that are associated with the underlying bonds. The value of bonds will fluctuate relative to changes in interest rates, decreasing when interest rates rise.

The Bloomberg Intermediate US Government/Credit Total Return Index Value Unhedged is an unmanaged, market-weighted index generally representative of intermediate government and investment-grade corporate debt securities having maturities from one up to ten years.

The Bloomberg US Government Intermediate Total Return Index Value Unhedged is an unmanaged, market-weighted index generally representative of all public obligations of the U.S. Government, its agencies and instrumentalities having maturities from one up to ten years.

The Bloomberg U.S. Corporate Bond Investment Grade Index is publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

Portfolio construction will have significant differences from that of a benchmark index in terms of security holdings, industry weightings, asset allocations and number of positions held, all of which may contribute to performance, characteristics and volatility differences. Investors may not make direct investments into any index.

Asset-backed Security (ABS) - A security whose value and income payments are derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets.

Basis Point (bp) - A unit equal to 1/100th of 1%. 1% = 100 basis points (bps).

A bond credit rating assesses the financial ability of a debt issuer to make timely payments of principal and interest. Ratings of AAA (the highest), AA, A, and BBB are investment-grade quality. Ratings of BB, B, CCC, CC, C and D (the lowest) are considered below investment grade, speculative grade, or junk bonds.

Credit Spread/Quality Spread - The difference between the yields of securities with different credit qualities.

Duration - A bond's sensitivity to interest rates. Bonds with longer durations experience greater price volatility than bonds with shorter durations.

Mortgage-backed Security - A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must be grouped in one of the top two ratings as determined by a accredited credit rating agency and usually pay periodic payments that are similar to coupon payments. The mortgage must have originated from a regulated and authorized financial institution.

Mortgage Pass-Through - A security consisting of a pool of residential mortgage loans. Payments of principal, interest and prepayments are "passed through" to investors each month.

Yield Curve - A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.

Yield to Worst (YTW) - The lowest potential yield that can be received on a bond without the issuer actually defaulting.

For United Kingdom: This communication is issued by Thornburg Investment Management Ltd. ("TIM Ltd.") and approved by Robert Quinn Advisory LLP which is authorised and regulated by the UK Financial Conduct Authority ("FCA"). TIM Ltd. is an appointed representative of Robert Quinn Advisory LLP.

This material constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (the "Act") and the handbook of rules and guidance issued from time to time by the FCA (the "FCA Rules"). This material is for information purposes only and does not constitute an offer to subscribe for or purchase any financial instrument. TIM Ltd. neither provides investment advice to, nor receives and transmits orders from, persons to whom this material is communicated nor does it carry on any other activities with or for such persons that constitute "MiFID or equivalent third country business" for the purposes of the FCA Rules. All information provided is not warranted as to completeness or accuracy and is subject to change without notice.

This communication and any investment or service to which this material may relate is exclusively intended for persons who are Professional Clients or Eligible Counterparties for the purposes of the FCA Rules and other persons should not act or rely on it. This communication is not intended for use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

For Hong Kong: This material is issued by Thornburg Investment Management (Asia) Limited ("Company"), a wholly-owned subsidiary of Thornburg Investment Management, Inc. The Company is currently licensed with the Hong Kong SFC for Type 1 regulated activity, with the CE No.: BPQ208.

This material is directed at and intended for "Professional Investors" within the meaning of Part 1 of Schedule 1 to the Securities and Futures Ordinance and is issued for information purposes only. It is not to be construed as an offer or solicitation for the purchase or sale of any financial instruments. This material has not been reviewed nor endorsed by any regulatory authority in Hong Kong, including the Securities and Futures Commission, nor has a copy been registered with the Registrar of Companies in Hong Kong. Hong Kong residents are advised to exercise caution in relation to this information.

Any prices referred to herein are indicative only and dependent upon market conditions. Past performance is not indicative of future results. Unless otherwise specified, investments are not bank deposits or other obligations of a bank, and the repayment of principal is not insured or guaranteed. They are subject to investment risks, including the possibility that the value of any investment (and income derived thereof (if any)) can increase, decrease or in some cases, be entirely lost and investors may not get back the amount originally invested. The contents of this presentation have not been reviewed by any regulatory authority in the countries in which it is distributed.

THORNBURG INCOME AND U.S. GOVERNMENT BONDS

Portfolio Manager Commentary

30 June 2022



Thornburg Investment Management, Inc. accepts no liability whatsoever for any direct, indirect or consequential loss arising from or in connection with any use of, or reliance on, this presentation which does not have any regard to the particular needs of any person. Thornburg Investment Management, Inc. takes no responsibility whatsoever for any use, reliance or reference by persons other than the intended recipient of this presentation.

The opinions and views herein do not take into account your individual circumstances, objectives, or needs and are not intended to be recommendations of particular financial instruments or strategies to you. This presentation does not identify all the risks (direct or indirect) or other considerations which might be material to you when entering any financial transaction. You are advised to exercise caution in relation to any information in this document. If you are in doubt about any of the contents of this document, you should seek independent professional advice.

For Australia: This material has been prepared by Thornburg Investment Management, Inc. (Thornburg). Thornburg is regulated, as a registered investment adviser, by the Securities and Exchange Commission of the United States of America ("US") under U.S. laws which differ from Australian laws. Thornburg holds a foreign AFSL 526689. This material contains general information only and is intended for viewing only by wholesale clients for the purposes of section 761G of the Corporations Act 2001 (Cth). It must not be distributed to retail clients in Australia (as that term is defined in the Corporations Act 2001 (Cth)) or to the general public. This document may not be reproduced in any form or distributed to any person without the prior written consent of Thornburg. This material is not intended to provide you with financial product advice. It is for the use of researchers, licensed financial advisers and their authorised representatives. It does not take into account the objectives, financial situation or needs of any person. For this reason, you should, before acting on this material, obtain professional advice and consider whether this information is appropriate having regard to your investment needs, objectives, and financial situation.

Past performance is not an indication of future performance. Any economic or market forecasts are not guaranteed. Any references to particular securities or sectors are for illustrative purposes only. It is not a recommendation in relation to any named securities or sectors. To the extent permitted by law, no liability is accepted by Thornburg, its officers or directors or any affiliates of Thornburg for any loss or damage as a result of any reliance on this information. While efforts have been made to ensure the information is correct, no warranty of accuracy or reliability is given, and no responsibility is accepted for errors or omissions. Any opinions expressed are those of Thornburg as of the date noted on the material and are subject to change without notice.

For Austria, Belgium, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Lichtenstein, Lithuania, Luxembourg, Netherlands, Norway, Portugal, Poland, Singapore, Slovenia, Spain, South Korea, Sweden, Switzerland, Taiwan and Thailand: This is a marketing communication. This material is directed at and intended for institutional investors (as such term is defined in each jurisdiction). This material does not constitute investment advice or an offer or solicitation to sell or a solicitation of an offer to buy any product or service (nor shall any product or service be offered or sold to any person) in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities law of that jurisdiction. Any products or services referenced in this material may not be licensed in all jurisdictions, and, unless otherwise indicated, no regulator or government authority has reviewed this document, or the merits of the products and services referenced herein. If you receive a copy of this material, you may not treat this as constituting a public offering, and you should note that there may be restrictions or limitations to whom these materials may be made available.

This material is provided on a confidential basis for informational purposes only and may not be reproduced in any form or transmitted to any person without authorization. This material was prepared without considering the specific investment objectives, financial situation or particular needs of any particular person and does not identify all the risks (direct or indirect) or other considerations which might be material to you when entering any financial transaction. Before acting on any information in this material, prospective clients should inform themselves of and observe all applicable laws and regulations of any relevant jurisdictions. Prospective clients should inform themselves as to the legal requirements and tax consequences within the countries of their citizenship, residence, domicile and place of business with respect to the ongoing provision of services, and any foreign exchange restrictions that may be relevant thereto. Prospective clients are advised to exercise caution in relation to any information in this document. If you are in doubt about any of the contents of this document, you should seek independent professional advice. Thornburg Investment Management, Inc. does not accept any responsibility and cannot be held liable for any person's use of or reliance on the information and opinions contained herein. Any entity responsible for forwarding this material to other parties takes responsibility for ensuring compliance with applicable securities laws.

Thornburg is regulated by the U.S. Securities and Exchange Commission under U.S. laws, which differ from the above jurisdictions' laws.